QUARTERLY REPORT

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Carmignac Portfolio Patrimoine Europe: Letter from the Fund Managers

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0.91%

Performance of the Fund in 2023

vs 4.22% for the reference indicator* (A EUR Share class)

+7.2%

Volatility of the Fund over 5 year

vs +9.3% for the reference indicator* (A EUR Share class)

+24.1%

Performance of the Fund over 5 years

vs +17.6% for the reference indicator* (A EUR Share class)

Carmignac Portfolio Patrimoine Europe *A EUR Acc gained +0.91% in the first quarter of 2023, underperforming the +4.22% rise of its reference indicator[1].*

European Markets Review

The first quarter of the year has been marked by a series of ups and downs in global markets, with a shift in sentiment from a possible soft landing to concerns of a new banking crisis. Despite initial fears of a recession due to Russia's invasion of Ukraine, **the European market has outperformed that of the United States, with a mild winter, fiscal stimulus packages, and the reopening of China's economy contributing to better-than-expected growth**. Even if this better economic growth led to stickier inflation, European equities have rebounded, led by longer duration sectors such as luxury goods and technology. However, **fixed-income markets have experienced unprecedented volatility** due to central bankers' efforts to slow the economy and the need to restore liquidity in the face of banking system stress. Core rate markets have seen historical daily and intraday movements, with government bond volatility comparable to that of the great financial crisis.

Quarterly performance review

In the face of a volatile quarter, **the Fund adopted a cautious approach to portfolio construction**, which explains the underperformance compared to the market. Given the outperformance of European markets at the end of 2022 and a gloomy economic outlook, **the fund had limited exposure to equities - 20% on average** over the quarter. However, even if initially the sectoral mix was unfavorable for our stock picking, the volatility in March allowed us to catch up, as well as our tactical exposure to European banks (profit-taking at the end of February). **Our stock selection towards high-quality names supported the performance**, especially our convictions in the technology (SAP, ASML), healthcare (Novo Nordisk, Lonza), or the industrial sector (Assa Abloy, Schneider Electric). On the downside, despite **efficient bond picking in credit**, our fixed income investments **suffered from our sovereign rates exposure**. Our hedging on short-term rates to protect investments against persistent inflation suffered from historically high volatility.

Outlook

On the European macro front, headline inflation is expected to decline following decreasing energy prices, **but core inflation should remain stubbornly high**, at least until the end of the first semester, due to wage increases and second-round effects. Regarding growth expectations, the tightening of financial conditions for both households and corporates is expected to lead to a slowdown in private consumption and investment.

In this context, **the ECB is stuck** between the devil and the deep blue sea. With stubbornly high core inflation, they have no other choice but to continue tightening their monetary policy despite the fact that the transmission mechanism is showing the first signs of stress (mainly in the US at the moment, which is a few months ahead). **From an economic perspective, the main risk for the ECB is to witness a form of informal wage indexing on rising prices**. As a result, there is a risk of seeing a de-anchoring of inflation expectations as negotiated wages have increased from a year-on-year increase of 3.5% in the first quarter of 2022 to nearly 5% in the fourth quarter of 2022. In this context, we expect the ECB's rate hike policy to continue for the next few meetings, and therefore act as a headwind for long-term growth.

In response to these risks, **higher uncertainty justifies a defensive stance**, outlined as follows:

On the equity side, our focus is on identifying companies that have the ability to endure a slowdown in growth. The recent tightening of financial conditions and the negative impact it could have on investment leads us to be relatively cautious about the trajectory of corporate earnings. We therefore prefer quality stocks that have the fundamentals to withstand or mitigate a decline in earnings thanks to their visibility of sales and profits.

On the government bonds side, even if we are prudent about the short end of the curve as the ECB might go further to raise rates in the next meetings, we are long duration overall via long positions on core rates as the prospect of slower economic growth is getting closer. Our long duration positioning is also justified by the potential impact of an ongoing restrictive monetary policy on long-term growth expectations. In addition, we have identified some bond selection opportunities in European government debt, such as Greece, which offers attractive valuations and solid fundamentals.

On the corporate bonds side, the stress around the banking sector has led to a massive widening of the spreads, especially for financials. We took advantage of this widening to lift our credit hedges. Our credit exposure is around 12% of the portfolio, including 2% exposure to the sub debt across solid players (e.g. BNP, Natwest).

Management of the tailwind risk: After a decade of loose and accommodating monetary policies, the current state of the system indicates that caution is still advisable as cracks are beginning to emerge. Therefore, we maintain some hedges on equity indexes (net equity exposure at 30% to begin the quarter).

Source: Carmignac, Bloomberg, data as of 30/03/2023. Performance of the A EUR Acc share class ISIN code: LU1744628287. Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. [1] Reference Indicator: 40% STOXX Europe 600 (Reinvested Net Dividends) + 40% ICE BofA All Maturity All Euro Government + 20% ESTER capitalized. Quarterly Rebalanced. Until 31/12/2021, the reference indicator was 50% STOXX Europe 600, 50% BofA Merrill Lynch All Maturity All Euro Government Index. The performances are presented using the chaining method.

Carmignac Portfolio Patrimoine Europe

An all-weather European Fund

Discover the fund page

Carmignac Portfolio Patrimoine Europe A EUR Acc

ISIN: LU1744628287

Recommended minimum investment horizon

Lower risk Higher risk

1	2	3*	4	5	6	7

Main risks of the Fund

EQUITY: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

INTEREST RATE: Interest rate risk results in a decline in the net asset value in the event of changes in interest rates.

CREDIT: Credit risk is the risk that the issuer may default.

CURRENCY: Currency risk is linked to exposure to a currency other than the Fund's valuation currency, either through direct investment or the use of forward financial instruments.

The Fund presents a risk of loss of capital.

Marketing communication. Please refer to the KID/KIID, prospectus of the fund before making any final investment decisions. This document is intended for professional clients.

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